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RUEHCV/AMEMBASSY CARACAS PRIORITY 0499
RUEHME/AMEMBASSY MEXICO PRIORITY 7122
RUEHUNV/USMISSION UNVIE VIENNA PRIORITY 0079
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY
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RUEAIIA/CIA WASHDC PRIORITY
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC PRIORITY 0544
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C O N F I D E N T I A L SECTION 01 OF 03 TEGUCIGALPA 002372

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STATE PASS USTR
NSC FOR DAN FISK

E.O. 12958: DECL: 12/27/2016
TAGS: [ENRG](#) [EPET](#) [HO](#) [PGOV](#) [PINR](#) [PREL](#)
SUBJECT: HONDURAS: FUEL BID MISSES KEY DEADLINE; FREE
MARKET PATH APPEARS MORE LIKELY

REF: TEGUCIGALPA 2265 AND PREVIOUS

Classified By: AMB Charles Ford for reasons 1.4 (b) and (d).

1.(C) Summary: The key deadline of ten working days to sign the contract to supply all of Honduras, Premium, Regular and Diesel fuel has passed, but bid winner U.S. fuel company ConocoPhillips said it won't likely sign any contract until sometime in January. Meanwhile, losing bidder Trafigura has launched a legal complaint against the bid results while it completes its 50 percent purchase of Honduran fuel company DIPPSA. Savings from the process, once predicted to be as high as USD 0.25 per gallon, are likely to be less than USD 0.05, seriously eroding political support for the process. Following calls by Post and others for full disclosure of the process and its results, former supporters of the bid process have begun publicly questioning the results. This sparked a mudslinging match in the press that further amplified Post's message and strengthened the case for market liberalization. As the fuel tender stalls, the GOH appears more and more to be leaning towards canceling the process and moving towards a free market in fuels. End Summary.

KEY DEADLINE PASSES

12. (C) Despite having announced U.S. fuel company ConocoPhillips as the winner in the Honduran national tender to supply the country's fuel needs (reftels), the GOH missed a key deadline December 27 to sign a formal contract to finalize the deal. Per the official bid documents, &the total time from (official notification) to Contract signature cannot exceed ten working days. If the parties cannot come to an agreement, the GOH will initiate the same process with the Bidder ranked in second place.⁸ Per Post contacts on the commission overseeing the bid (CAP), ConocoPhillips was officially notified December 12 that they had won; the company's reps left Honduras December 14 after 2 days of negotiations without a signed contract. (Comment: Post

strongly recommended to the reps to do a thorough due diligence of the proposed process before signing. Afterwards, despite pressure from the GOH to sign, the reps left stating only that a contract was possible in mid-January. End Comment).

13. (C) EconOff met with the representative of the bidder ranked in second place, Trafigura Beheer, on December 19. The rep detailed the legal action the company is taking against the GOH, questioning how the bid was awarded to ConocoPhillips and requesting full publication of the bid results. Per Trafigura, the winning bid failed to include key cost items, but did include the fuel additive MTBE, which Trafigura claims is contrary to bid instructions. Not coincidentally, recent Honduran newspaper reports have declared MTBE unsafe and urged the GOH to avoid any fuel that contains the fuel additive. (Comment: MTBE, a fuel additive designed to reduce air pollution and increase octane, is now being phased out in the U.S. in favor of ethanol. The bid instructions clearly state that MTBE can be bid up to 15 percent, which would most likely accommodate a ConocoPhillips proposed blend of perhaps 10 percent. Just who is behind the recent media controversy is unclear. End Comment).

CORRALES CONTINUES TO PROMOTE ALTERNATIVE PLAN

14. (C) Presidential confidant Arturo Corrales continues to meet with fuel industry representatives, with the full (though quiet) support of Honduran President Jose Manuel &Mel8 Zelaya. In a brief meeting December 21 with EconOff, Corrales indicated that he had met with the President the day

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before and had been encouraged to continue to seek a revised import price with the current fuel importers. He was only waiting on Presidential advisor Yani Rosenthal,s savings cost breakdown from the ConocoPhillips proposal before he scheduled the meeting. (Comment: Corrales had already cancelled two meetings with the importers because Rosenthal had not produced the figures. Corrales, plan was to make the importers meet the anticipated savings from the bid, which would allow President Zelaya to cancel the bid process while still delivering lower prices. Post suspects that the savings figures are false, and Rosenthal is stalling. Why Rosenthal continues to back the process is unclear, but corruption remains a distinct possibility. End Comment).

15. (C) Post has managed to sell Corrales on a free market plan that will eventually eliminate the fuel price setting formula and liberalize the market for fuels. Business magnate Freddy Nasser, a major player in the fuel oil (bunker) and diesel business, is also involved in the pitch to the importers. In a Dec 21 conversation with EconOff, Nasser appeared very interested in the free market plan and requested a fuller briefing in the new year. (Comment: Post has no illusions about Nasser, a legendarily ruthless businessman who plays by his own rules. He is widely believed to be a grey marketer in diesel fuel, which he imports duty-free as feedstock for his thermo-electric generating plants. Tax authority director Armando Sarmiento has told Post previously that he suspects more fuel is imported than is used in electricity generation, implying significant tax fraud is taking place. Others allege Nasser also profits from transfer pricing, as he buys all his fuel from an offshore company he owns, which reportedly over-invoices him for fuel imports. Nasser is therefore very interested in avoiding the award of a bid in bunker fuel and would look to virtually any solution that would cancel the bid process. Post expects that this solution will help put an end to Nasser,s process. End Comment).

16. (C) The deal making by Corrales -- a former member of the Notables Commission that instigated the bid process --went public December 22 when activist and Notables Commission

President Juliette Handal accused him of distorting the savings figures and casting doubt over the bid process. The attack came days after an article questioning the purported savings was published in La Tribuna, the newspaper owned by former president and Liberal party godfather Carlos Flores. The article quoted an unnamed technical representative of one of the importers, who questioned key elements of the cost savings. More importantly, a table of figures was attached detailing changes in the price setting formula, and a note (presumably the text of an email) from Rosenthal to Corrales describing the changes.

17. (C) The changes included using a different octane mix, new delivery parameters, and identified several lines that had been deleted and no longer formed a part of the formula.8 Corrales publically responded by calling Handal a liar,8 and said all the Honduran people hope that the Government will explain how these savings were achieved.8 (Comment: The appearance of stories in La Tribuna attacking the bid process and dissecting its claims suggests Flores is actively working to discredit the bid process and its supporters. Flores is the leader of the moderate wing of the Liberal Party, and is openly distrustful of the more leftist elements that surround President Zelaya. Flores is also clearly working to build the profile and prestige of his daughter Lizzie, who as a freshman Congresswoman is nevertheless Vice president of Congress and a likely Presidential candidate someday. End Comment).

IMPORTERS RESPONDING WARILY

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18. (C) Meanwhile, the importers (including U.S. companies ExxonMobil and Chevron/Texaco) have responded to the advances of Corrales and Nasser with caution. On one hand, several reps have maintained that it is virtually impossible to reduce their margins any more in the formula to meet Corrales, expectations on the reference price; on the other hand, each rep on separate occasions has indicated that the current import reference price is unbeatable.8 Given the GOH's history of asking for concessions then not delivering on its part, the skepticism on the importers part is understandable. (Comment: The importers have still not been paid an estimated USD \$10 million for the GOH instigated fuel price freeze. End Comment). Corrales, insistence on combining any reference price reduction with a free market plan, however, has kept the importers interested. Post has received little response from ConocoPhillips.

19. (C) On December 23, Corrales met with President Zelaya and Foreign Minister Milton Jimenez. According to a readout supplied by Jimenez to Ambassador, Zelaya was "furious" to learn that the majority of over USD \$50 million in claimed savings would come from changes to the pricing formula and not from reduced import costs, as had been promised. He was grateful to Corrales for providing political cover for the administration by refusing to implicate Zelaya publicly in the ongoing talks over how to escape this morass. Zelaya reportedly instructed his ministers to again contact the importers seeking their participation in some kind of revised system that could deliver lower pump prices.

110. (C) EconOff talked to one importer December 27, and he indicated that Corrales asked for a meeting that day, and that there was a genuine interest amongst the importers to further dialogue. It has long been the position of the importers that the only substantial cost savings would come from tweaking the pricing formula and GOH fuel tax policy, not from reduced import prices. It now looks like the GOH might be grudgingly coming to the same conclusion. Post is working closely with the World Bank, members of Congress, and others to ensure that any discussion of revising the pricing formula take place within the context of a broader market

liberalization. Such a move is in the long-term interest of both investors and consumers, and gives Zelaya a face-saving exit strategy that builds on earlier pledges to move towards a more open market.

¶11. (C) SUMMARY. With the deadline for signing the contract passing quietly, the GOH is now in a precarious position. Because the actual notification to ConocoPhillips was never published, the GOH could conceivably argue that the winner was never &officially8 notified, or notified only recently, to buy more time, but that may only extend the deadline to December 29 (it would be hard to explain how the bid winner came and went in a flurry of press conferences without being officially notified). Without a deal with ConocoPhillips, the GOH would legally have to move to the second place winner: Trafigura. Post has made it clear to the Trafigura rep that we will strongly oppose awarding the contract to them, and have armed key opposition (Nationalist) party legislators with derogatory information on Trafigura,s actions around the world and the benefits to a free market approach. DIPPSA President Henry Arevalo on December 27 publicly called for publication of all data from the bids and the awards process, adding his voice to the growing chorus demanding transparency. Post assesses that Trafigura/DIPPSA would be well placed to compete in a liberalized market and, if they cannot win the bid outright, might become a strong ally in the effort to open the market. Post will monitor developments closely. END SUMMARY.
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